The State of Healthcare, 2005

Creating Competitive Advantage in the Era of the New Healthcare Consumer

Naval Medical Center, Portsmouth
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thestrategygroup™

The Essence of Strategy...

- ✓ “CREATING AND SUSTAINING FUTURE COMPETITIVE ADVANTAGE”
- ✓ WHAT INSIGHTS DO WE HAVE ABOUT OUR ENVIRONMENT?
- ✓ WHAT ARE OUR THREE OR FOUR MAJOR ISSUES?

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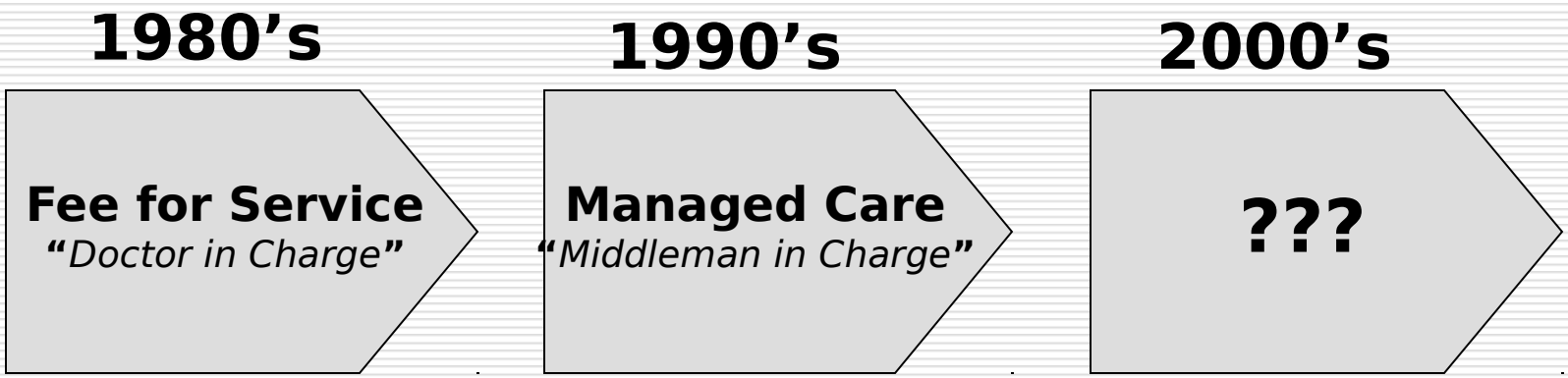
EXECUTIVE SUMMARY…..

1. CONSUMER
2. CHOICE
3. COMPETITION
4. DIFFERENTIATION
5. COMPETING ON QUALITY
6. 39/69 (2010-2030)
7. MEDICAL ARMS RACE
8. UNCOMPENSATED CARE
9. BUTTER VS. GUNS
10. PIGS IN A PYTHON

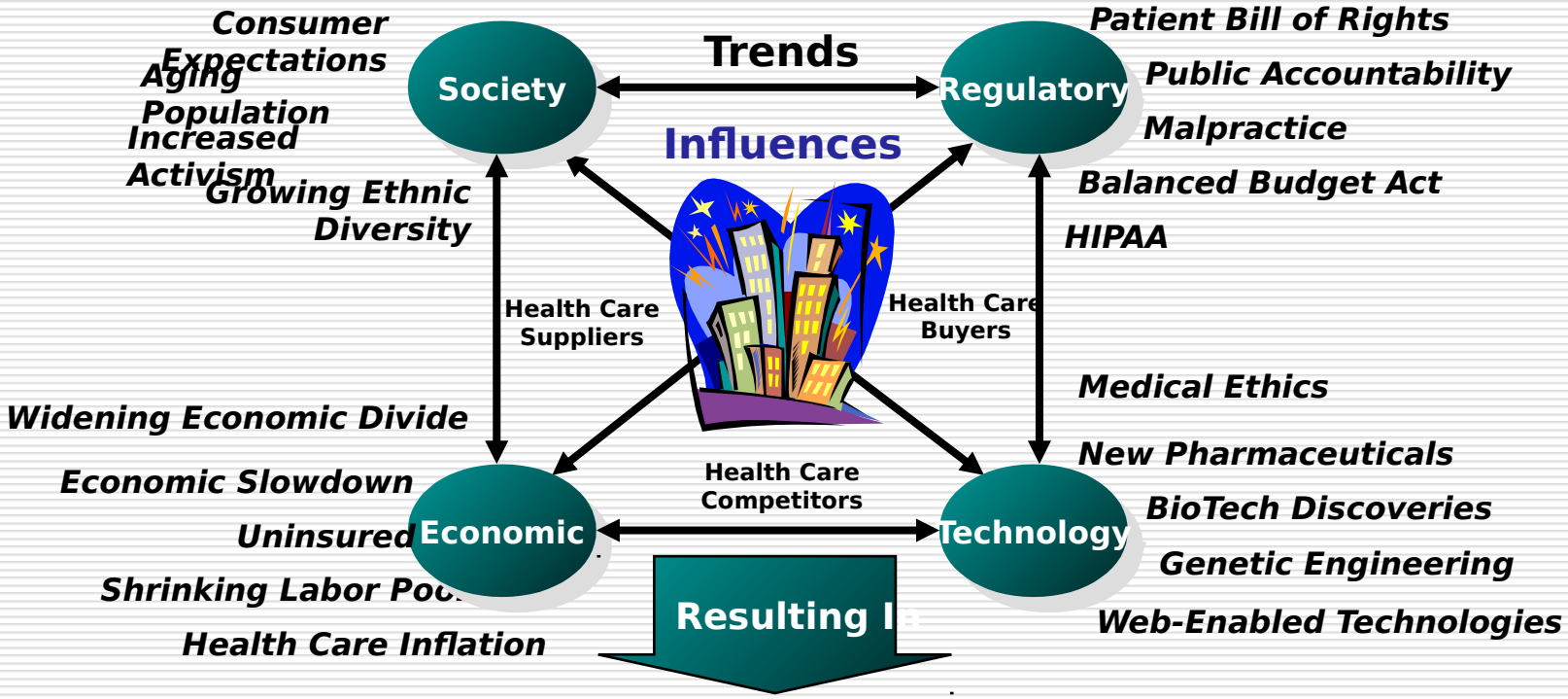
10. Redefining Primary Care
11. A new physician model/relationship
12. A new model for nursing care
13 .Eco-Systems
14. $5.2 Billion….$3.6 just retirees/dependents
15. P4P

Industry in Transition

Recent Past



Competitive Landscape



New Pressures for Health Care

- *Increased demand for healthcare products and services*
- *Increased cost and profit pressures for hospitals and doctors*
- *Public reporting and accountability for clinical performance*
- *Competition based on quality outcomes*
- *Labor force shortages*
- *Erosion in public confidence and satisfaction with health care services*

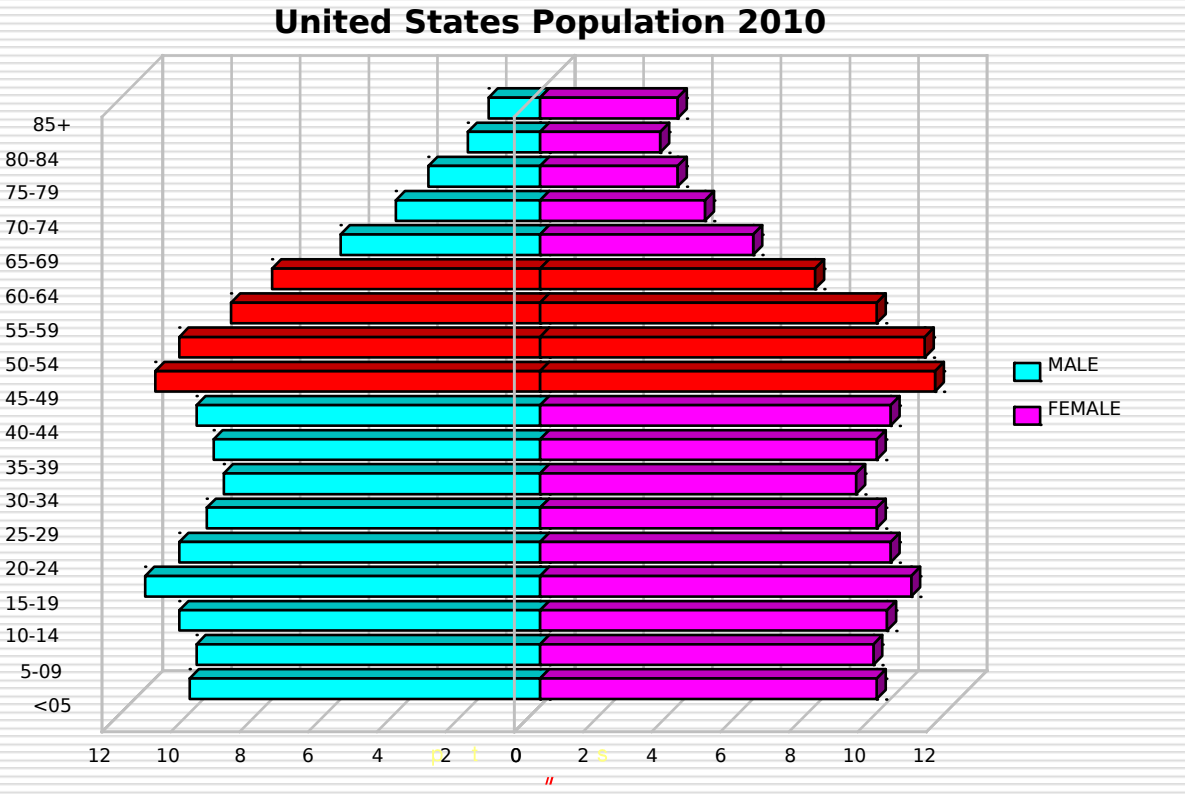
Key Drivers of Change

"The aging baby boomer population is the most significant trend shaping the future of the health care industry, second only to technological changes."

The 21st Century Healthcare Consumer
AHSM 1999

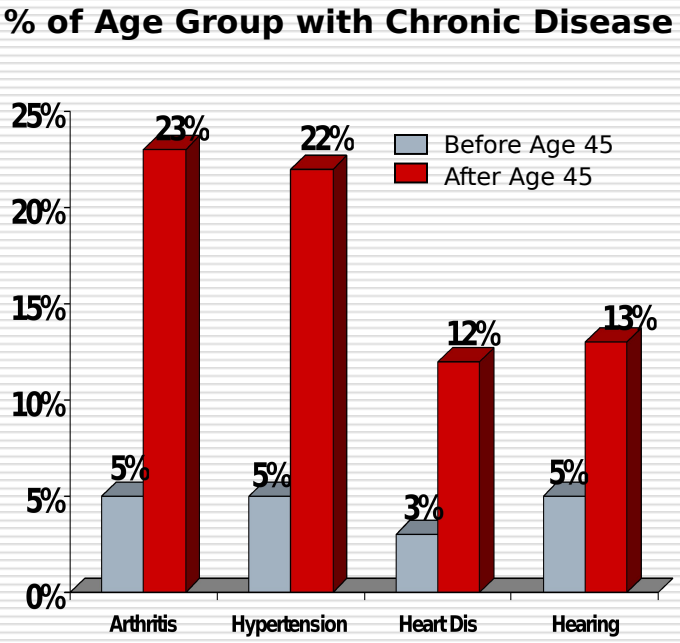
- The health care needs and expectations of an aging population
- A growing healthcare literacy
- Technological breakthroughs in understanding the nature and structure of human genetics
- Access to information, services and health care experts - anywhere, anytime
- Increasing divide between consumer demand and third party coverage

The Population is Growing . . .



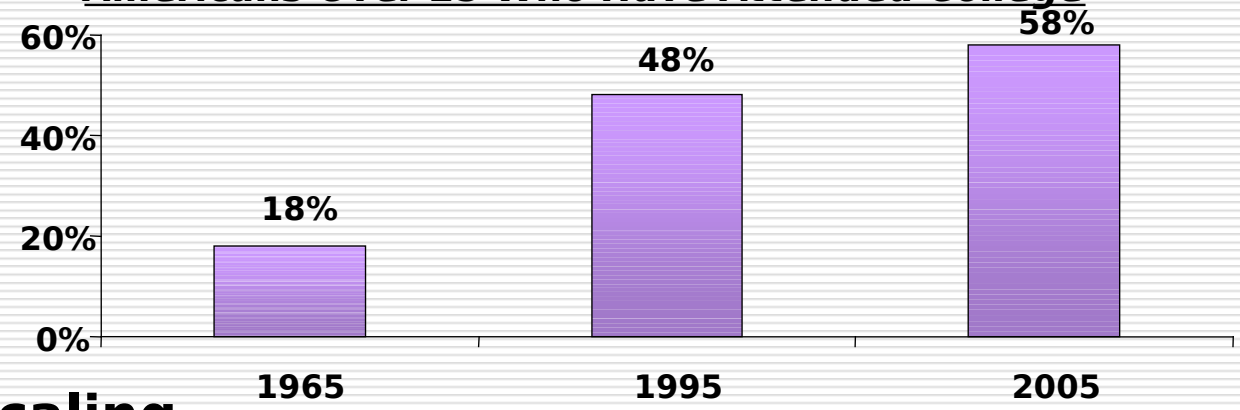
Demand Increasing

- As baby-boomers enter their high-use health care years, we will see increased demand for services that:
  - Promote health enhancement
  - Delay aging
  - Promote rapid recovery from illness and disease.



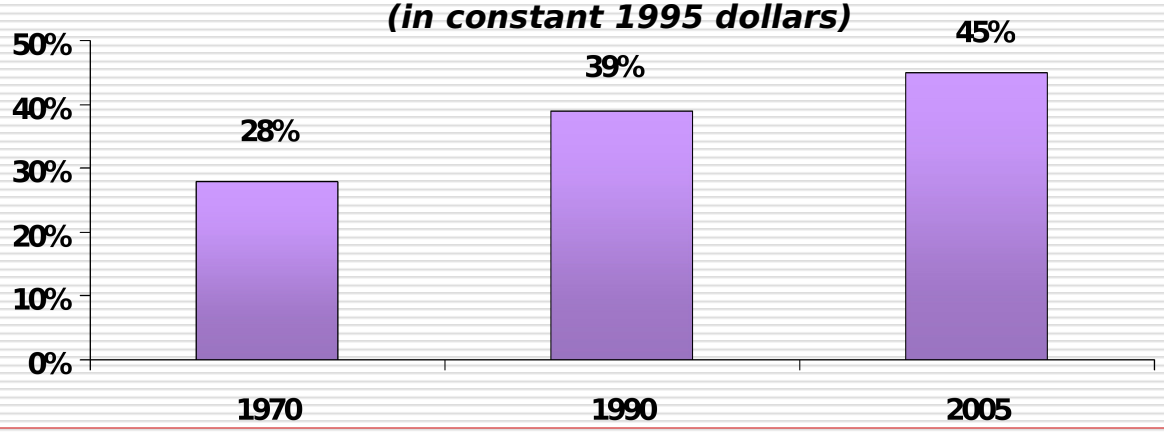
The Economic Variable

Americans Over 25 Who Have Attended College



Mass Upscaling

U.S. Households with $50K Incomes
(in constant 1995 dollars)



Source: Institute for the Future 1998; U.S. Bureau of Census,

Health Care Literacy

21 BREAKTHROUGHS THAT COULD CHANGE YOUR LIFE IN THE 21ST CENTURY:
GENE THERAPY / EDIBLE VACCINES / MEMORY DRUGS / GROW-YOUR-OWN ORGANS
LIFE
SPECIAL ISSUE
MEDICAL MIRACLES
FOR THE NEXT MILLENNIUM

Human Error Cited In Deaths

FDA: Hospital Device Connected To Wrong Outlet

Associated Press

INTERNATIONAL HEALTH POLICY
MANAGED CARE
MEDICAID
MEDICARE

News Release

NEW STUDY ESTIMATES EIGHT MILLION AMERICAN FAMILIES EXPERIENCED A SERIOUS MEDICAL OR DRUG ERROR

Many Also Fail to Get Recommended Preventive Care or Treatment for Chronic Conditions

back

April 15, 2002

For more information, please call:
MARY MAHON
Public Information Officer
TEL 212-606-3853
cell phone 917-225-2314

New York City, April 15, 2002—More than one of five Americans report that they or a family member had experienced a medical or prescription drug error, according to a new report from The Commonwealth Fund. Based on respondents' evaluation of these errors, this translates into an estimated 8.1 million households nationally reporting a medical or prescription drug error which turned out to be a very serious problem. The report also reveals many missed opportunities, such as failure to get preventive services at recommended intervals and substandard care for chronic conditions, which translate into needless suffering, reduced quality of life, and higher long-term health care costs.

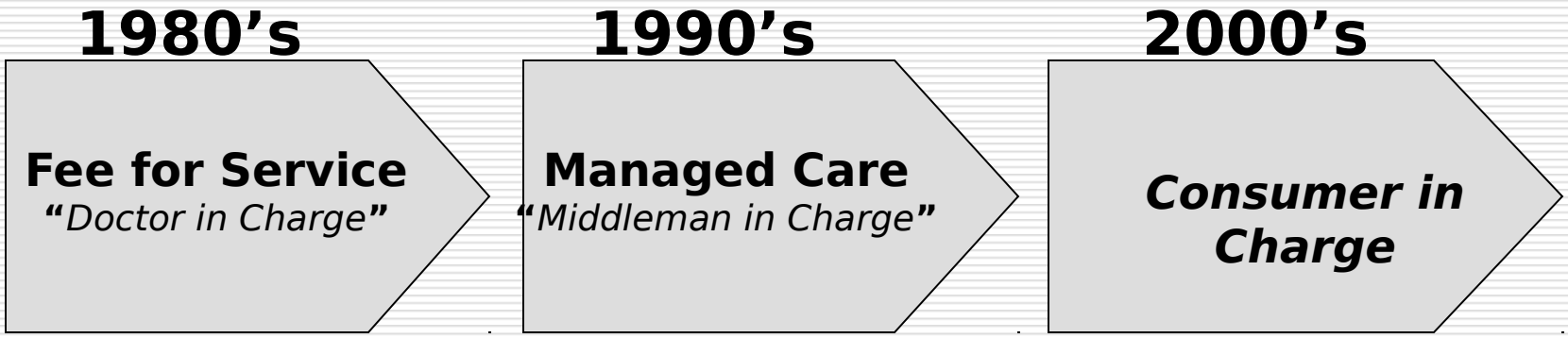
The Technology Variable

Genomics + BioTech Breakthroughs + Information Technologies

- Genetic Mapping
- Lifestyle Counseling
- Pharmacogenetics
- Rational Medicine
- Nanotechnology
- Xenotransplants
- 3D Digital Imaging
- Regenerative Tissue Transplants
- BioMaterials
- Telesurgery

Innovations promoted directly to the consumer will further increase expectations for access and choice!

New World Order



Today's Consumer:

Trust and Confidence Have Been Shaken

- Awareness of clinical quality and medical errors continue to grow
- Growing desire for relevant information
- Consumer beliefs are formed by experience: the result is driving consumer involvement
- Levels of trust in hospitals, doctors and nurses are less than desirable
- The "Leapfrog" initiative is the employer community's frustrated response to our industry's inability to contemplate 6-Sigma performance

Source: Market Strategies, Inc.
VHA Leadership Conference 2002

Consumers Take Center Stage

- Increasingly knowledgeable about disease and treatment options
- More demanding about a central role in treatment decisions
- High expectations for clinical outcomes and service
- Redefining Choice to mean:
  - *Changing doctors, institutions and health plans*
  - *Challenging diagnosis and redirecting care*
  - *Seeking alternatives among treatment options*

The Leadership Challenge:

Success in a Consumer Driven Health Care Economy

- ✓A clear and compelling vision of the end state
- ✓Market Leadership
- ✓Clinical Performance
- ✓Operational Excellence
- ✓The Hospital-Physician Collaboration

El Camino Hospital

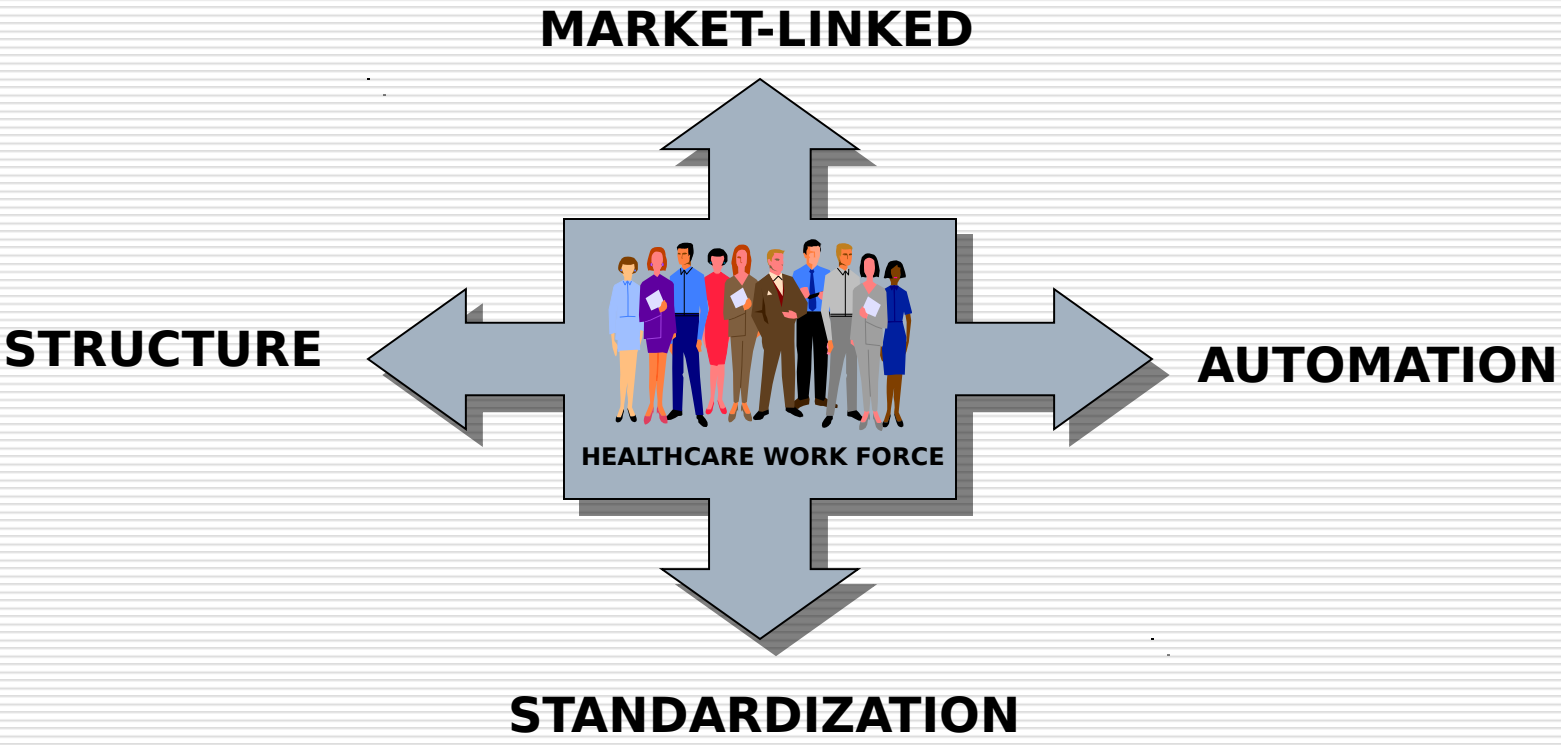
The Hospital Community of the Future

- ✓ Our vision is that we will be the preferred community health care destination of Silicon Valley, focused on innovation and the individualized patient experience; integrating technology and efficiency within a caring environment.

World Class Health Care

- ✓ Intelligent health care systems
- ✓ Documented clinical performance
- ✓ Differentiated patient experience

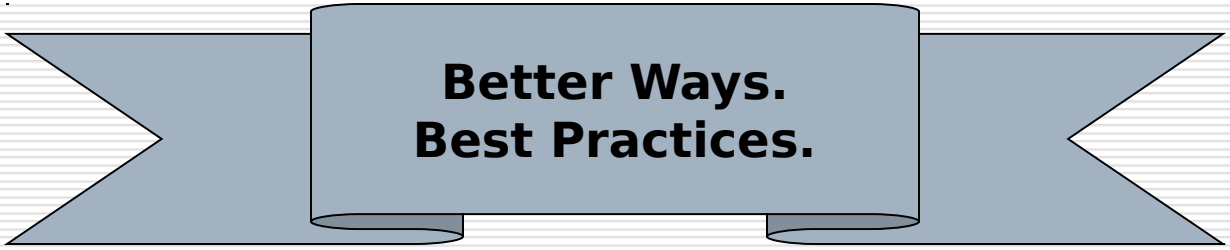
Intelligent Healthcare Systems



Documented Clinical Performance

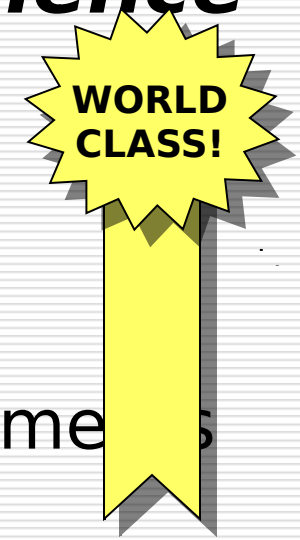
Increasingly Unacceptable Patterns of Care Include:

- Unexplainable, unjustified variation in treatment
- Unexplainable, unjustified variation in outcomes
- Barriers to access and delays in treatment
- Unsatisfactory service experiences
- Unwarranted costs of care
- Errors in diagnosis and missed diagnosis
- Long treatment cycles



World Class Care:
Beyond Customer Satisfaction

A differentiated patient experience



- ✓ Clockwork efficiency
- ✓ Information that empowers
- ✓ Choices – products, providers, treatments
- ✓ Documented clinical quality
- ✓ Intelligent people that care

Market Making Alliances . . .

- ✓ Vertical and horizontal integration
- ✓ Joint ventures
- ✓ Co-marketing ventures
- ✓ Co-branding product strategies
- ✓ OWA

. . . Or Competition

"In Oklahoma City, the success of the Lakeside Women's Hospital has prompted . . . neurosurgeons and cardiologists to pursue their own specialty hospitals."

Medical Economics, April 2000

Technology Enabled Advantages

- Advance the organization's business strategy
- Better understand target audiences and deliver something of value
- Deliver solutions that reduce the amount of time and/or hassle required
- Make the solution convenient for the audience
- Create knowledge and confidence in purchasing

- ✓ New Models of Healthcare Delivery
- ✓ New Ways to Improve Service Delivery
- ✓ New Ways to Enhance Patient Care
- ✓ New Marketing Tools and Processes

The Business of Healthcare

"Where will I be allowed to make a profit?"

We must place significant emphasis on growing in these areas and on doing these particularly well.

"How is that changing?"

We must know what is coming from government, payers, competitors, employers, regulators, in order to project changes and identify trends.

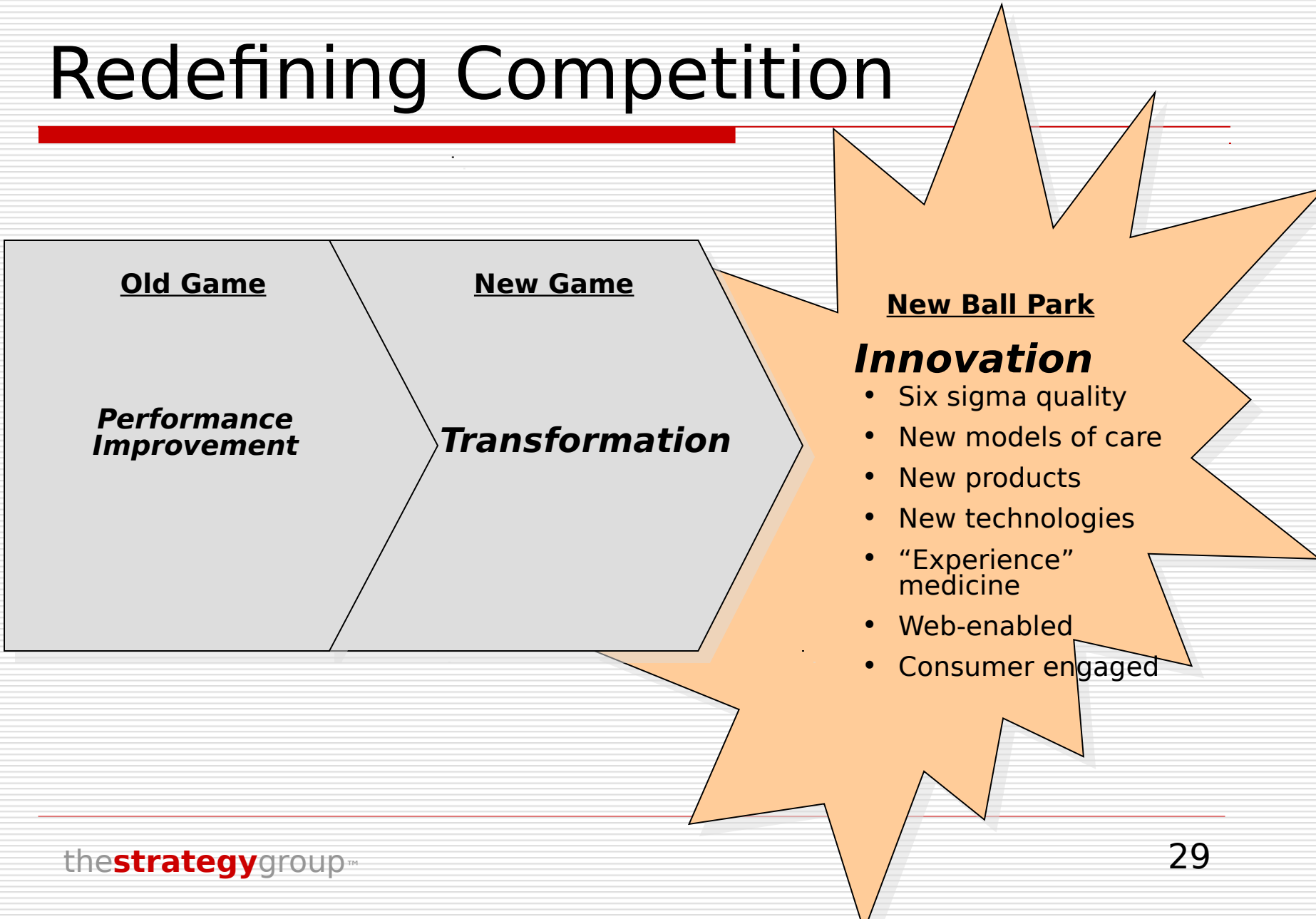
"What is driving that change?"

We must understand the real dynamics--so that we can work around obstacles recognize new realities.

"What can we do?"

We must have strong and effective strategies to take full advantage of strengths and opportunities and to resist negative impact from weaknesses and threats.

Redefining Competition



The Physician-Hospital Collaboration

- ✓ A critical success factor if the institution is to achieve its vision. It is not merely a nice idea, it is a required business imperative.
- ✓ The physicians and the institution must jointly "own" the objective of designing and delivering world-class health care
- ✓ The key question: "Why will physicians choose ECH"?

Issues facing our Physicians

- ✓ Increasing cost-pressures, e.g. practice overhead, malpractice, I.T., etc.
- ✓ Payer power, lack of leverage, and decreasing reimbursement
- ✓ Increasing admin burden, demand for data, and increased governmental regulations
- ✓ Increasing consumer demands for access, convenience, “Nordstrom” service levels

Federal Health Issues..

- ✓ Caring for the Uninsured
- ✓ Medicare reimbursement/reform
- ✓ Medicaid Reform
- ✓ Information Technology
- ✓ Quality of Care
- ✓ Specialty Hospitals
- ✓ Tax Exemption for Not-for-Profit Hospitals

Anticipated State Healthcare Issues

- ✓ Medicaid Assset tranfser limits
- ✓ Prescription Assistance
- ✓ Tax Credits for Purchase of LTC Insurance
- ✓ Reporting of Serious Medical Errors
- ✓ Availability of Geriatricians
- ✓ Mental Health Needs and Treatment of Young Minority Adults.

Continuation on the Path to an Idealized End State

Phase I: 1980-2004

Consolidation And Rationalization

Future role and scope of system services
Facilities consolidation and rationalization
Building and development
Systems governance

Phase II: 2000 - 2007

Transformation

Creating and cultivating a "Quality" culture
Clinical program development and distribution
Medical staff development and collaboration
Evidence-based practice, protocols, standardization
Systems integration, simplification and automation
Brand differentiation

Phase III: 2004 - 2009

Clinical Outcomes
Patient Satisfaction
Market Leadership
Financial Performance

Quality Performance Acceleration

End State Vision

- Caring, competent physicians and professionals who deliver the best possible health care experience
- Highly-individualized care and attention to patients
- Advanced clinical capabilities and medical technology
- Superior clinical performance and health outcomes
- Efficient and timely registration and treatment processes
- Differentiated and sustainable competitive position

"There's a current of thinking today which says that because things are changing so rapidly, it's impossible to have a strategy. All you need is to be agile and react to immediate change. That is wrong. It allows someone else to determine the constraints under which you'll operate.

Organizations with a strategy will set the terms of competition."

Alvin Toffler

DISCUSSION

THE FOLLOWING ARE ADDITIONAL SLIDES FOR DISCUSSION, AS NEEDED

Characteristics of High Performance Boards

- Exhibit community stewardship
- Provide visionary leadership
- Utilize systems thinking
- Focus on high leverage actions
- Manage policy, not operations
- Emphasize sound business principles

Source: AHA National Study 350 Healthcare Boards

Exhibiting Community Stewardship

- Fulfilling the mission and purpose of the organization
- Acting like and being recognized as a good corporate citizen
- Maintaining the assets of the corporation in a responsible way
- Identifying and meeting community health needs
- Operating the system in a business-like fashion

Visionary Leadership

- ✓ High performance boards understand that in times of dynamic change, it is critical that the board is committed to the future of the organization, its vision and mission

  - ❑ Mission: Our fundamental and irrevocable purpose for being in business
  - ❑ Vision: A clear picture of the future we're trying to create

Systems Thinking

- ✓ High performance boards think systematically within the context of the organization's many and varied interests and relationships
  - ❑ Patterns of change vs. snapshots
  - ❑ Services vs. facilities
  - ❑ Ecosystem vs. factional interests

Leadership Imperatives

- Balance the business vs. the practice of medicine
- Set the clinical vision and direction
- Drive change vs. respond to change
- Inspire commitment to excellence
- Build core competencies and new capabilities
- Transform the organization and its relationships
- Evolve leadership and governance roles

"The future is not a result of choices among alternative paths offered by the present, but a place that is created, first in mind, next in will, then in activity. The future is not some place we are going to, but a place we are creating. The paths are not to be discovered, but made, and the activity of making the future changes both the maker and the destination."

John Scharr

Characteristics of system-physician alignment

- ✓ A clearly articulated and shared vision about where the system is headed
- ✓ Active participation of physicians in the governance and management
- ✓ A relationship of openness and trust
- ✓ A management team at the top that speaks with one voice in physician relationships
- ✓ A laser focus on clinical/service quality

Alignment characteristics…. (cont'd)

- ✓ A board, management team and physician leaders who believe that the success of the system depends a sense of "we" among the three stakeholder groups
- ✓ A dedication to communication
- ✓ A culture of speed, flexibility and risk taking
- ✓ High standards, clear expectations and accountability for results

The Supplier/Purchaser Power Index

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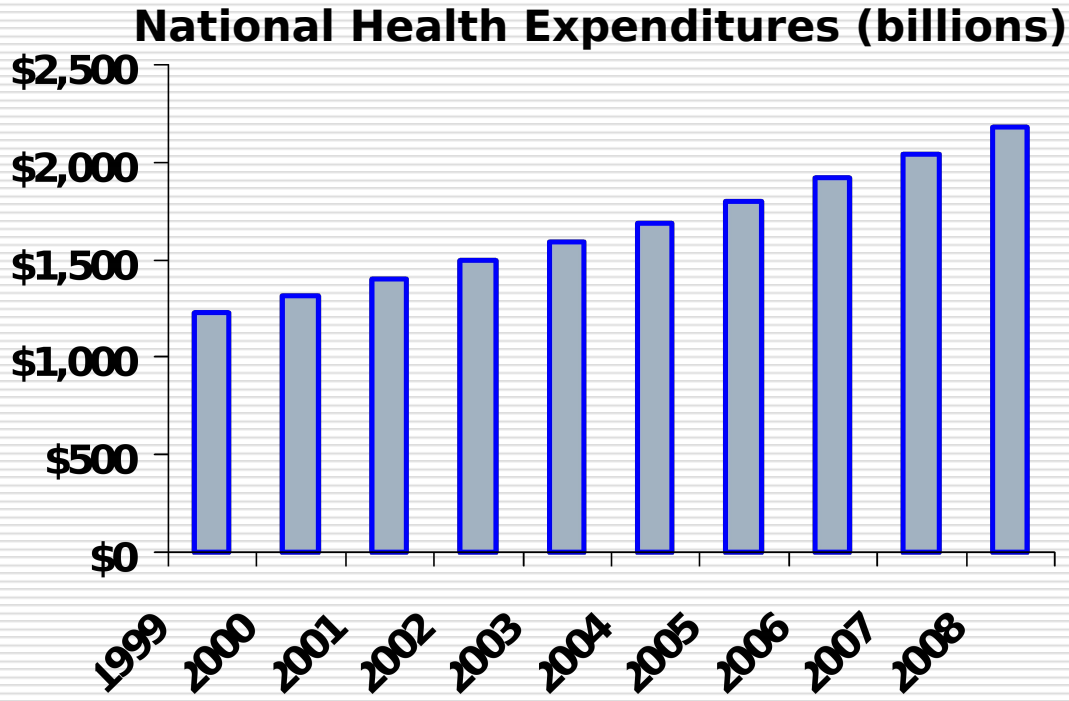
A Growth Industry



Wild Card

The Future of Healthcare Financing!

Source:HCFA, 2000

WHAT INSIGHTS DO WE HAVE ABOUT…

- ✓ THE CUSTOMER
- ✓ CLINICAL QUALITY
- ✓ REPUTATION
- ✓ THE COMPETITION
- ✓ OUR PHYSICIANS
- ✓ OUR FINANCES
- ✓ OUR COST POSITION
- ✓ OUR STRUCTURE
- ✓ OUR EFFECTIVENESS
- ✓ FUTURE REIMBURSEMENT TRENDS
- ✓ INDIGENT CARE
- ✓ NEW CARE MODELS
- ✓ NEW MARKET ENTRANTS
- ✓ OUR PORTFOLIO
- ✓ CORE COMPETENCIES

7 Dimensions of Market Leadership

- *Market Intelligence*
- *Vision Driven Strategy*
- *World Class Health Care*
- *Differentiated Brand Identity*
- *Market-making Partnerships and Alliances*
- *Technology Enabled Advantages*
- *Advanced Marketing Capabilities*

Driving Change

- Market Innovators: Creating Change

  "What is health care in the 21st Century?"

- Market Leaders: Mastering Change

  "What are the success requirements for our health system in the 21st century?"

- Market Followers: Coping with Change

  "How will we survive the 20th century?"

How will ECH **lead** the transition to 21st Century Healthcare?

- ✓ By developing, with our physicians, a demonstrably superior model of care that delivers a consumer-defined healthcare experience (CQ+SQ+Access/cost)
- ✓ By becoming the "shell answer man" of healthcare for consumers seeking an optimal state of health
- ✓ By delivering demonstrably superior, innovative operating models

And some disruptive trends….

- ✓ Open access to health information, beyond the control of providers
- ✓ Impact of genomics
- ✓ Mass, customized self-diagnosis, often low-cost, outside traditional medical settings
- ✓ Shift from defined benefit to defined contribution financing

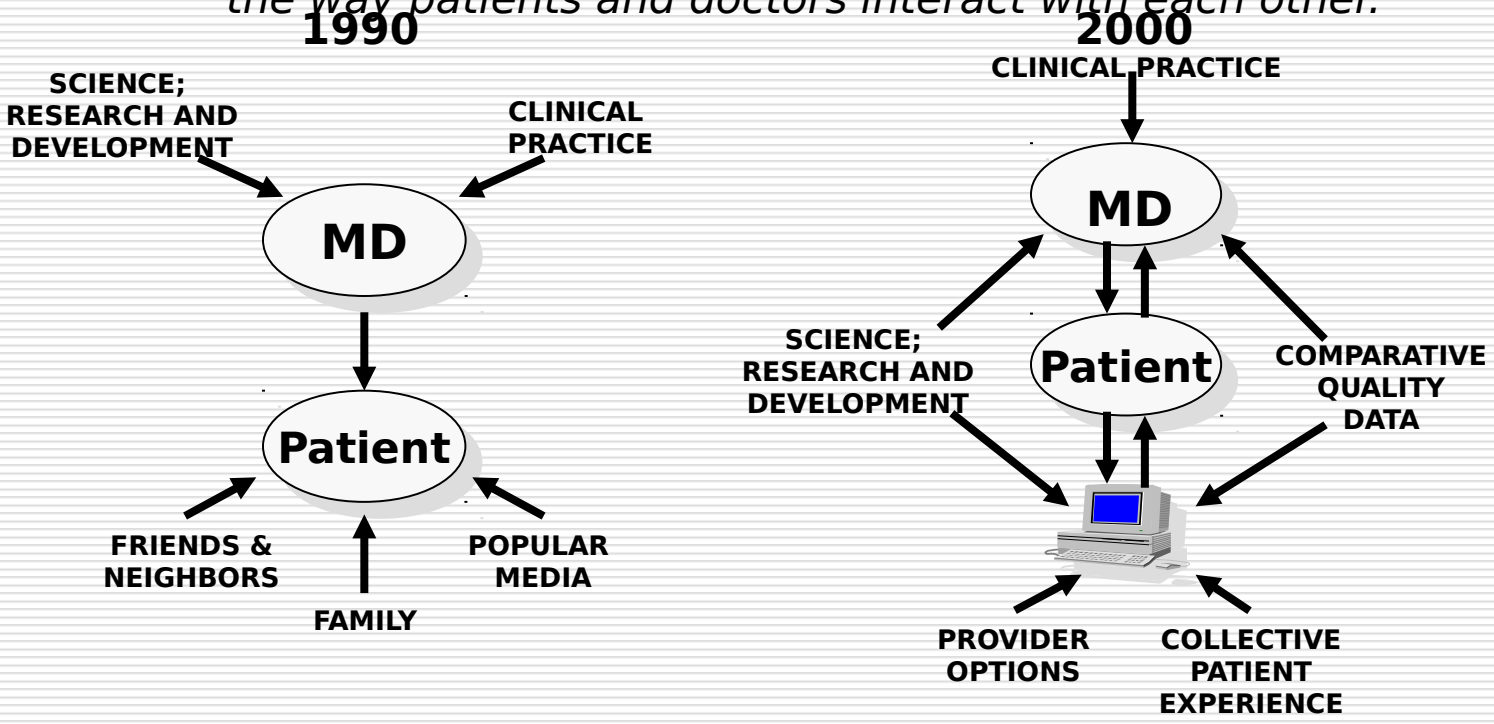
disruptive trends.. (cont'd)

- ✓ Growing disillusionment of consumers toward traditional healthcare system
- ✓ Payment models and incentives that are tied to quality of care
- ✓ The emergence of "focused factories" that concentrate on specific patients
- ✓ The development of large multispecialty groups as the future physician model

Relationships Transformed

Consumers know more and seek more information

An unprecedented availability of information on health care issues, medical practice, treatment options and alternative providers is changing the way patients and doctors interact with each other.

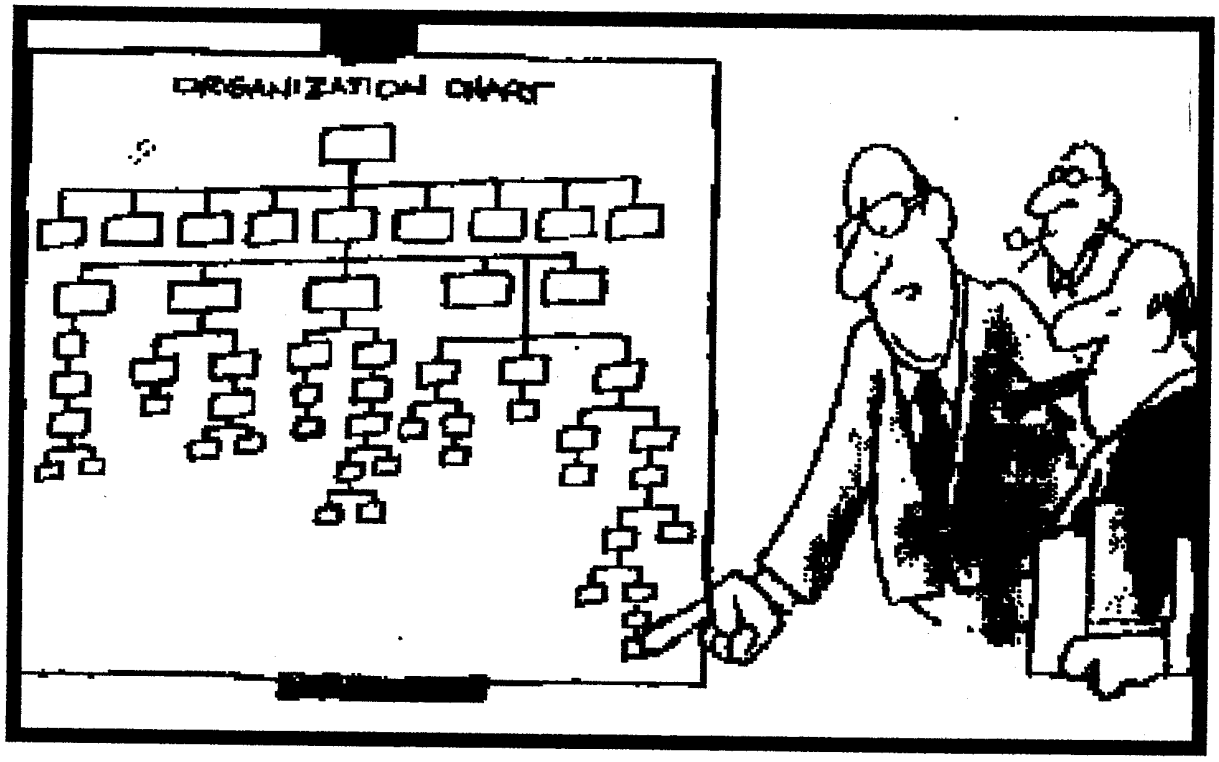


Strategic Implications

	IMPLICATIONS
AGING BABY BOOMER POPULATION	• Increased demand for health products and services • Increased expectations for quality and service • Labor force shortages
INCREASING HEALTHCARE LITERACY	• Patient as “colleague” • Expectations for “evidence-based” medicine • Geographic borders expand
BIOTECH BREAKTHROUGHS	• Disruptive technologies • Rational medicine
24/7 ACCESS – INFO, PRODUCTS, EXPERTS	• Increased expectations for health care “on demand” • Increased competition; new competitors
HEALTHCARE ECONOMICS	• Defined contribution • Increased consumer “out-of-pocket” expenditures • Entitlement “wild card”

Market Intelligence

Meanwhile, back in Administration…



"Here's where we think the problem is."